

VZCZCXRO2244
OO RUEHMR
DE RUEHLU #0464/01 1231153
ZNY CCCCC ZZH
O 031153Z MAY 06
FM AMEMBASSY LUANDA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2810
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHBJ/AMEMBASSY BEIJING 0085

C O N F I D E N T I A L SECTION 01 OF 03 LUANDA 000464

SIPDIS

SIPDIS

E.O. 12958: DECL: 04/20/2016
TAGS: [ECON](#) [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [PREL](#) [CH](#) [AO](#)
SUBJECT: ANGOLA: A REALITY CHECK ON THE CHINESE CREDIT LINE

REF: A. PARIS 02362

- [1](#)B. 05 LUANDA 00847
- [1](#)C. 05 LUANDA 01341
- [1](#)D. LUANDA 00438

Classified By: Ambassador Cynthia G. Efird for reasons 1.4 B and D.

SUMMARY

[1](#)1. (SBU) Since the announcement of a USD 2 billion credit line from the PRC to GRA in March 2004, reports of increases to the credit line, ranging from USD 1 billion to USD 10 billion, have proliferated. Regardless of the promised value, actual implementation of the credit line is gradual and unspectacular. By the end of 2005, the first billion dollars was obligated but only a fraction of that amount had been disbursed. However, it is important to note that many large Chinese projects occur outside the context of the credit line. The PRC also helped arrange USD 3 billion oil-backed loan in late 2005, a far more immediate and substantial contribution to GRA coffers than the credit line.

[1](#)2. (SBU) The media has commonly credited the Chinese credit line for dampening GRA interest in dealing with the International Monetary Fund (IMF). This is an overstatement; the Chinese credit line is only one source of funds among a wider influx of credit lines, loans, and oil revenue. Though Angola's financial position has strengthened dramatically, the GRA continues to signal its willingness to work with the IMF and is in the process of implementing various transparency measures. These measures may positively impact management of the Chinese credit line and other sources of government financing as well. Endsummary.

SPENDING THE CASCADE OF CHINESE MONEY?

[1](#)3. (SBU) On March 28, a Reuters article quoted a businessman who claimed that China's EXIM Bank added an additional USD 1 billion to a USD 2 billion oil-backed credit line agreed in March 2004, bringing the total credit line to USD 3 billion. Previously, the GRA Minister of Finance openly asserted that the government was negotiating to increase the credit line with China and the Vice Minister noted that the credit line could reach USD 6 billion, an assertion echoed by IMF officials in 2005. In March 2006, Ref A reported that Angolan authorities notified the IMF of a new USD 10 billion credit line with China's EXIM Bank. On April 14, the Vice Minister of Finance told Angolan media that China contributed 58 percent of the USD 5.5 billion Angola has received in loans since 2002, or the equivalent of USD 3 billion.

[1](#)4. (C) Of this litany of promised billions, how much money has actually reached Angola to date? Ref B notes that actual implementation of the USD 2 billion credit line has been a gradual, drawn-out process, with each project subject to the

rigorous approval of both the PRC EXIM Bank and the GRA. In April 2005, more than one year after agreeing to the credit line, the GRA announced that 18 out of 21 projects to be funded by the first USD 1 billion tranche of the USD 2 billion credit line had been approved, but only 3 had begun implementation. Chinese diplomat in Luanda, Chang Hexi, told us in March 2006 that all 21 projects of the first tranche are approved and implementation has begun for about 10 projects. A major source of delay was the 30 percent local Angolan content requirement attached to the credit line, which forced Chinese companies to secure local partners. Now that these relationships have been established, Mr. Chang believes that the second USD 1 billion tranche of the USD 2 billion credit line will be disbursed significantly faster than the first. Indeed, by the end of May, the GRA Prime Minister informed Parliament members that USD 800 million of the second tranche had already been obligated.

15. (SBU) There is ample reason to doubt that the GRA can spend the Chinese credit line as quickly as planned. Of a targeted capital expenditure of USD 2.5 billion for 2005, the GRA was only able to spend USDS 1.5 billion. Both the IMF and World Bank have questioned whether the GRA can achieve its targeted capital expenditure of USD 7.9 billion for 2006, more than five times the previous year,s spending.

16. (C) Regarding reports of a third billion-dollar tranche, Mr. Chang noted that while the possibility of further increases to the credit line exists, no formal agreement has yet been concluded. Negotiations on new credit lines will depend on the successful conclusion of at least some projects funded by the initial USD 2 billion. GRA officials, while noting the possibility of increases, have never announced a third billion-dollar tranche. The Reuters correspondent who reported the credit line increase to USD 3 billion,

LUANDA 00000464 002 OF 003

information attributed to a &senior financial source,8 informed EmbOff that no one else has yet been able to corroborate this information.

THERE,S MORE THAN JUST A CREDIT LINE...

17. (SBU) It appears that the USD 10 billion dollars reported by the IMF refers not to an increase in the Chinese EXIM credit line, but rather to the future GRA Public Investment Program (PIP) for which China will be the major financier. It is uncertain what percentage of the USD 10 billion PIP will consist of PRC financing, but it will include projects funded by entities other than the PRC EXIM Bank. Projects taking place outside the context of the USD 2 billion credit line include the new Luanda international airport (estimated USD 400 million), the Luanda and Benguela railroad lines (estimated USD 200 to 300 million each), telecommunications upgrading (estimated USD 400 million), rehabilitation of all domestic airports, and more. These projects are financed by a variety of private and public Chinese entities.

18. (C) The PRC also assisted Angola in the acquisition of its largest oil-backed loan. In late 2005, the GRA and state oil company Sonangol worked with the PRC and Chinese oil company Sinopec to arrange a USD 2 billion oil-backed loan (Ref C), syndicated by France,s Calyon Bank. According to an international banking representative, a consortium of sixteen international banks oversubscribed the loan, causing Calyon and Sonangol to increase the deal to USD 3 billion. Part of the loan refinances a previous 1.225 billion loan arranged in 2003, but roughly USD 1.8 billion represents new money. With interest rates at 250 basis points above the London Interbank Offered Rate (LIBOR) and a 7-year repayment period, the terms are significantly better than those for Sonangol,s previous oil-backed loan syndicated in 2004, which featured interest rates of 312.5 to 337 basis points above LIBOR and a 6-year repayment span. Sinopec subsidiary Unipec plays a critical role in the deal as the &offtaker,8 or buyer of oil

collateral in the loan,s security guarantee.

¶9. (SBU) While Sonangol and Angola,s rising reputation as reliable borrowers helped fuel international lenders, interest, leading to loan oversubscription and improved terms, China,s involvement through Uniprec was instrumental in shaping a favorable deal. Previous oil-backed loans with Sonangol had been guaranteed by special purpose vehicles (SPVs), juridically independent entities established to channel Sonangol,s oil revenues to the lenders. The Calyon-syndicated loan offers a simpler structure by replacing the SPV with Uniprec. Uniprec, as holder of the major offtake contract, will purchase 40,000 barrels of oil per day from Sonangol until September 2008 to collateralize the loan. (Note: 40,000 barrels at current production rates represents less than 3 percent of daily production. End note.) Offtake contracts with other oil buyers are also in place to cover the period following 2008. Even at USD 23 per barrel, oil revenues would be sufficient to pay off the loan within the 7-year repayment period. International financiers have credited this structure, underpinned by Uniprec as the main oil purchaser, for enhancing the attractiveness and pricing of the deal.

¶10. (SBU) The USD 3 billion Calyon-syndicated loan is a far more significant Chinese contribution to Angolan coffers than the credit line, even though it has received less media attention. The Chinese credit line is disbursed slowly, project by project, and the money is paid directly from the PRC EXIM Bank to Chinese companies without passing through GRA hands. The USD 3 billion Calyon oil-backed loan, on the other hand, is immediate & money in the bank for the GRA and could not have been so successful without the PRC,s intervention.

...AND THERE,S MORE THAN JUST CHINA

¶11. (SBU) Ref D lists many credit lines that the GRA has negotiated with other nations since 2004, including USD 580 million from Brazil, 400 million euros from Portugal, and 100 million euros from Germany. Besides these officially-backed credit lines, five private Spanish banks have arranged credit lines that range from 100 million euros to USD 400 million, totaling as much as USD 1 billion. Of this amount, approximately USD 300 million has already been obligated to specific projects whereas the remainder may be obligated by the end of 2006. Just as rumors persist about increases to the Chinese credit line, banking sources assert that the GRA will receive even more private and government-backed credit lines from countries other than China.

A THREAT TO TRANSPARENCY? SURPRISINGLY NOT

LUANDA 00000464 003 OF 003

¶12. (SBU) Conventional media commentary contends that the availability of the USD 2 billion Chinese credit line has dampened Angola,s will to implement transparency and good governance reforms exhorted by the IMF. The IMF has repeatedly discouraged the GRA from taking out oil-backed loans, citing their high cost and negative contribution to Angola,s external debt. The GRA argues that such loans are necessary to fund reconstruction work in the absence of other sources of financing. However, the GRA also responded positively to an IMF invitation to explain the terms and structure of its loans and will send a mission to the IMF in the near future.

¶13. (SBU) The GRA has taken steps to improve good governance that directly affects management of the credit lines. In early 2006, the Ministry of Finance issued and enforces a decree that established strict credit line release procedures for all projects over USD 10 million. In March 2006, the GRA announced that it is preparing a new law of public

acquisition that will require public bidding for all government procurement contracts. Given the large purchases to be made via credit lines, improvement in this area will be essential to controlling corruption.

COMMENT: CONTEXTUALIZING CHINA,S INFLUENCE

¶14. (C) GRA officials have made it clear that while they welcome a strong working relationship with the IMF, they do not need the IMF to carry out domestic economic policy. China,s bilateral credit line to Angola without doubt has increased Angola,s range of options and bargaining power vis-a-vis international organizations such as the IMF. However, China is only one contributor of many to Angola,s burgeoning coffers, the source of the government,s confidence and financial self-sufficiency. For example, Chevron alone delivers more in taxes, royalties, and oil production shares to the GRA than China could realistically disperse to the GRA through its credit line in any given year. Spanish private banks are offering credit lines that, when added together, may exceed USD 1 billion. The Calyon-syndicated oil-backed loan, in which international banks and Sinopec played key roles, contributes more to the Angolan treasury than any credit line.

¶15. (C) Comment continued: The major difference is that the Chinese credit line, unlike the fragmented and varied financial arrangements made by individual private sector actors, comes in one consolidated pipeline from a state clearly pursuing energy security interests. This financing is thus more high-profile and more overtly political, even though the underlying motives for the Chinese credit)-demand for Angolan oil and commercial interest in Angola,s reconstruction boom)- are the same as those of private actors.

¶16. (SBU) Comment continued: Given the varied sources of external financing that the GRA receives, the Chinese credit line is only one piece of a far larger puzzle with regard to transparency. The effort to ensure that the Chinese credit does not contribute to corruption cannot be divorced from larger efforts to improve transparency in oil revenues, government procurement processes, credit line disbursement, and loan structures. End comment.

EFIRD